

LAKEVIEW COMMUNITY SCHOOLS

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

LAKEVIEW COMMUNITY SCHOOLS

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**LAKEVIEW COMMUNITY SCHOOLS
ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2008**

SCHOOL BOARD MEMBERS

Daryl Johnson	President
Timothy Reed	Vice-President
Douglas Bucholtz	Secretary
Catrina Woodruff	Treasurer
William Drews	Trustee
Tim Rasmussen	Trustee
Edward Jonaitis	Trustee

SUPERINTENDENT

Dixie M. Pope, Ed.D.

PRINCIPALS

Michael J. Travis	High School
Robert Ivan	Middle School
Timothy Erspamer	Elementary School

DIRECTOR OF INSTRUCTION

Sara L. Shriver



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

October 29, 2008

Board of Education
Lakeview Community Schools
Lakeview, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Lakeview Community Schools** (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeview Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools as of June 30, 2008, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 29, 2008 on our consideration of Lakeview Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakeview Community Schools' basic financial statements. The combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of Lakeview Community Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note 12 to the financial statements, capital assets were restated during the current year in connection with a physical inventory. Accordingly, beginning net assets of governmental activities as of July 1, 2007 have been restated to adjust these balances.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lakeview Community Schools

123 Fifth Street
Lakeview, Michigan 48850

Phone: 989-352-6226
Fax: 989-352-8245

Dixie M. Pope, Superintendent
Sara L. Shriver, Director of Instruction
Pamela M. Main, Human Resource Supervisor
Patricia K. Root, Accounting Supervisor

Management's Discussion and Analysis

As management of Lakeview Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,526,717 (*net assets*). Of this amount, \$485,422 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for district programs.
- The District's total net assets increased by \$20,277.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,735,559, a decrease of \$1,006,470 in comparison with the prior year. This is primarily the result of significant construction projects.
- At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$493,506 or 3.9% percent of total general fund expenditures and transfers out.
- Investments for the future were made by spending \$952,912 on school improvements, vehicles, and equipment.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including management discussion and analysis, budgetary schedules and combining statements for non-major and fiduciary funds.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services, athletics and other services. The District has no business-type activities as of and for the year ended June 30, 2008.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains numerous individual governmental funds, one internal service fund, and two agency funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general, 2008 refunding debt service, and capital projects funds, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. These funds include several debt service funds, a food service fund, a preschool fund and an athletic special revenue fund. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12-16 of this report.

Proprietary fund The District maintains one proprietary fund. The *internal service fund* is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to accumulate resources to fund compensated absences payable. The proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Lakeview Community Schools' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-33 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 34-44 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$1,526,717 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

A portion of the District's net assets reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Lakeview Community Schools' Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 5,369,243	\$ 6,204,489
Capital assets, net	18,220,055	18,422,472
Total assets	23,589,298	24,626,961
Liabilities		
Current liabilities	4,865,870	4,779,408
Long-term liabilities outstanding	17,196,711	18,341,113
	22,062,581	23,120,521
Net assets		
Invested in capital assets, net of related debt	284,948	384,860
Restricted	756,347	504,363
Unrestricted	485,422	617,217
Total net assets	\$ 1,526,717	\$ 1,506,440

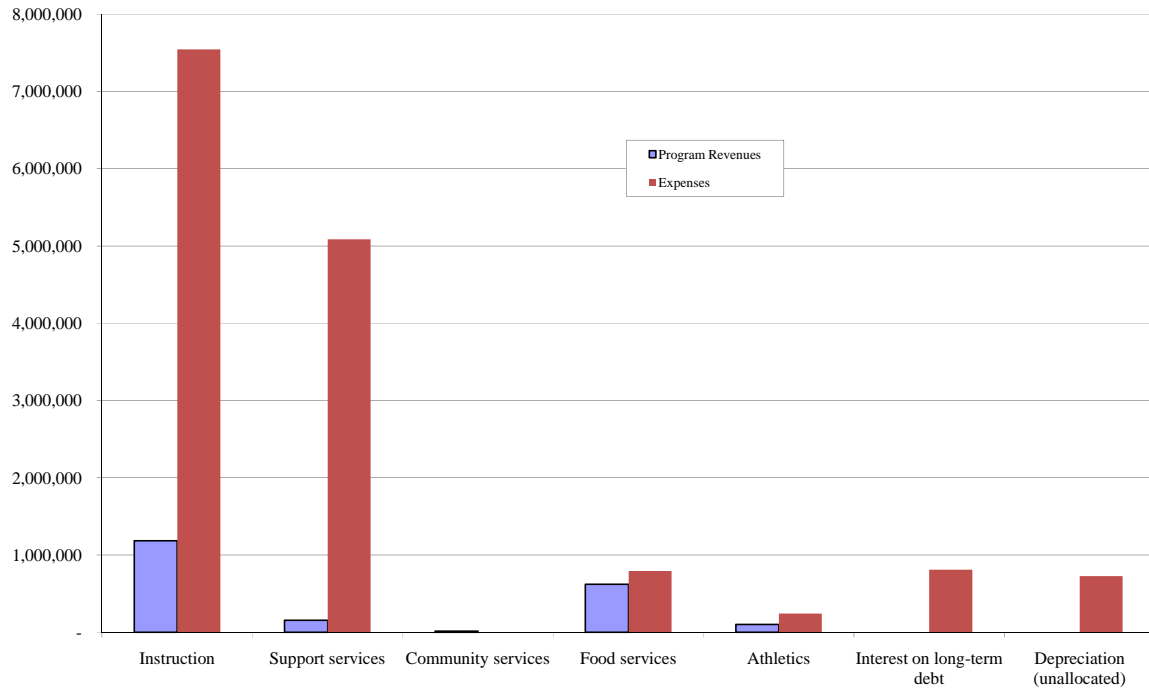
An additional portion of the District's net assets represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets* may be used to meet the District's ongoing obligations to its general programs.

Lakeview Community Schools' Changes in Net Assets

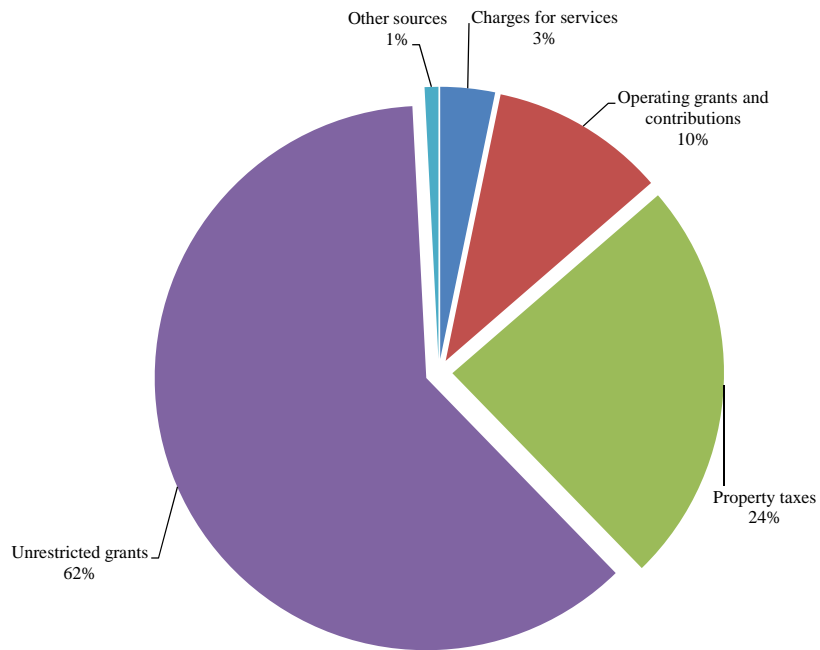
	Governmental Activities	
	2008	2007
Revenues		
Program revenues:		
Charges for services	\$ 494,456	\$ 476,342
Operating grants and contributions	1,584,963	1,652,160
General revenues:		
Property taxes - operations	1,705,898	1,634,159
Property taxes - debt service	1,955,369	1,889,518
Grants and contributions not restricted to specific programs	9,358,555	9,999,081
Universal service funds	15,116	8,652
Gain on sale of capital assets	-	2,266
Unrestricted investment earnings	109,193	148,838
Total revenues	<u>15,223,550</u>	<u>15,811,016</u>
Expenses		
Instruction	7,543,278	8,007,121
Supporting services	5,087,161	4,581,545
Community services	961	32,176
Food services	792,161	667,004
Athletics	241,845	227,415
Interest on long-term debt	811,406	1,002,203
Unallocated depreciation	726,461	755,696
Total expenses	<u>15,203,273</u>	<u>15,273,160</u>
Change in net assets	20,277	537,856
Net assets, beginning of year, as restated	<u>1,506,440</u>	<u>968,584</u>
Net assets, end of year	<u><u>\$ 1,526,717</u></u>	<u><u>\$ 1,506,440</u></u>

Governmental activities. Net assets increased by \$20,277 and remained relatively consistent with the prior period.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$493,506, while the total fund balance was \$680,404. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 3.9 and 5.4 percent, respectively, of total general fund expenditures and transfers out.

The fund balance of the District's general fund decreased by \$96,676 during the current fiscal year. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with instruction and related supporting activities.

The 2008 bond refunding debt service fund accounts for the refunding of and payment of principal and interest on the District's 2008 refunding debt.

The capital projects fund was created to account for the expenditures of bond proceeds from issuance of the 2006 building and site bonds. The remaining fund balance will be spent in future years as the designated projects are completed.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor and related primarily to changes to the student foundation allowance. Significant variances between budget and actual include grant reallocations due to changes in grant funding. Special Ed bill backs are estimates and come in later.

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets for its governmental activities as of June 30, 2008 amounted to \$18,220,055 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Capital assets at fiscal year included the following:

Lakeview Community Schools' Capital Assets (Net of Depreciation)		
	<u>2007</u>	<u>2007</u>
Land	\$ 393,160	\$ 393,160
Construction in progress	-	261,258
Buildings and improvements	17,515,755	17,309,232
Machinery and equipment	22,387	150,550
Vehicles	<u>288,753</u>	<u>405,253</u>
Total	<u>\$18,220,055</u>	<u>\$18,519,453</u>

Additional information on the District's capital assets can be found in Note 5 on page 28 of this report.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$18,563,520.

The District's total debt decreased by \$1,108,200 during the current fiscal year.

Additional information on the District's long-term debt can be found in Note 7 on pages 30 and 31 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2008-2009 fiscal year:

- A declining pupil count continues due to the County's economic and job loss situation.
- Projected \$100 less (\$7,314) per student for 2008-2009 than what was used in 2007-2008.
- Wages were calculated at a freeze as the District is in the process of negotiating contracts.
- Retirement and insurance costs were projected according to state retirement and insurance rate projections.
- Grant projections were calculated on a grant-by-grant basis, determining needs with offsetting expenditures in all cases.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Superintendent or Designee
Lakeview Community Schools
123 Fifth Street
Lakeview, MI 48850
(989) 352-6226
dpope@lakeviewschools.net

BASIC FINANCIAL STATEMENTS

LAKEVIEW COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,716,959
Investments	1,516,758
Receivables:	
Accounts	73,140
Due from other governments	1,932,067
Other assets	130,319
Total current assets	<u>5,369,243</u>
Noncurrent assets:	
Capital assets not being depreciated	393,160
Capital assets being depreciated, net	17,826,895
Total noncurrent assets	<u>18,220,055</u>
Total assets	<u>23,589,298</u>
Liabilities	
Current liabilities:	
Accounts payable	111,584
Accrued expenses	1,288,473
Unearned revenue	99,004
Notes payable	2,000,000
Current portion of compensated absences/early retirement incentives	114,173
Current portion of long-term debt	1,252,636
Total current liabilities	<u>4,865,870</u>
Noncurrent liabilities:	
Noncurrent portion of compensated absences/early retirement incentives	235,395
Noncurrent portion of long-term debt	16,961,316
Total noncurrent liabilities	<u>17,196,711</u>
Total liabilities	<u>22,062,581</u>
Net assets	
Invested in capital assets, net of related debt	284,948
Restricted for debt service	756,347
Unrestricted	485,422
Total net assets	<u><u>\$ 1,526,717</u></u>

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS

Statement of Activities For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 7,543,278	\$ 66,881	\$ 1,119,764	\$ (6,356,633)
Supporting services	5,087,161	86,695	69,808	(4,930,658)
Community services	961	7,200	7,585	13,824
Food services	792,161	232,010	387,806	(172,345)
Athletics	241,845	101,670	-	(140,175)
Interest on long-term debt	811,406	-	-	(811,406)
Unallocated depreciation	726,461	-	-	(726,461)
Total governmental activities	<u><u>\$ 15,203,273</u></u>	<u><u>\$ 494,456</u></u>	<u><u>\$ 1,584,963</u></u>	(13,123,854)
General revenues:				
Property taxes - operations				1,705,898
Property taxes - debt service				1,955,369
Grants and contributions not restricted to specific programs				9,358,555
Universal service funds				15,116
Unrestricted investment earnings				<u>109,193</u>
Total general revenues				<u>13,144,131</u>
Change in net assets				20,277
Net assets, beginning of year, as restated				<u>1,506,440</u>
Net assets, end of year				<u><u>\$ 1,526,717</u></u>

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS

Balance Sheet Governmental Funds June 30, 2008

	General	2008 Refunding	Capital Projects	Nonmajor Governmental Funds	Total
Assets					
Cash and cash equivalents	\$ 847,333	\$ 274,132	\$ 32,108	\$ 522,673	\$ 1,676,246
Investments	1,216,209	-	300,549	-	1,516,758
Accounts receivable	23,140	50,000	-	-	73,140
Due from other governments	1,832,954	-	-	99,113	1,932,067
Inventory	26,924	-	-	9,507	36,431
Prepaid items	7,634	-	-	-	7,634
Total assets	\$ 3,954,194	\$ 324,132	\$ 332,657	\$ 631,293	\$ 5,242,276
Liabilities					
Accounts payable	\$ 40,516	\$ -	\$ 53,812	\$ 17,256	\$ 111,584
Accrued expenditures	1,146,539	-	-	5,897	1,152,436
Deferred revenue	86,735	50,000	-	105,962	242,697
Notes payable	2,000,000	-	-	-	2,000,000
Total liabilities	3,273,790	50,000	53,812	129,115	3,506,717
Fund balance					
Reserved for:					
Inventory	26,924	-	-	9,507	36,431
Prepaid items	7,634	-	-	-	7,634
Unreserved:					
Designated for:					
Early retirement	17,294	-	-	-	17,294
Vacation and sick leave	131,011	-	-	-	131,011
Lakeview elementary pop funds	732	-	-	-	732
Lakeview high school pop funds	2,640	-	-	-	2,640
Bright Start elementary school pop funds	663	-	-	-	663
Undesignated reported in special revenue funds	-	-	-	54,366	54,366
Undesignated reported in debt service funds	-	-	-	438,305	438,305
Undesignated	493,506	274,132	278,845	-	1,046,483
Total fund balance	680,404	274,132	278,845	502,178	1,735,559
Total liabilities and fund balance	\$ 3,954,194	\$ 324,132	\$ 332,657	\$ 631,293	\$ 5,242,276

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 1,735,559
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term Durant receivable	93,693
Add - deferred long-term building sale receivable	50,000

Amortization of bond issuances costs are not recorded in the fund statements, but are recorded as a noncurrent assets in the statement of net assets

Add - bond issuance costs, net of accumulated amortization	86,254
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	393,160
Add - capital assets being depreciated, net	17,826,895

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(18,211,329)
Deduct - unamortized bond premium	(105,577)
Add - unamortized deferred loss on bond refunding	102,954
Deduct - accrued interest on bonds payable	(136,037)
Deduct - compensated absences/early retirement incentive	(308,855)

Net assets of governmental activities	<u>\$ 1,526,717</u>
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The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2008

	<u>General</u>	<u>2008 Refunding</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenue					
Local sources	\$ 2,035,214	\$ 29,726	\$ 30,944	\$ 2,311,701	\$ 4,407,585
State sources	10,053,080	-	-	93,539	10,146,619
Federal sources	345,415	-	-	339,798	685,213
	<u>12,433,709</u>	<u>29,726</u>	<u>30,944</u>	<u>2,745,038</u>	<u>15,239,417</u>
Expenditures					
Current:					
Instruction	7,403,086	-	-	58,646	7,461,732
Supporting services	4,656,658	-	16,270	1,131	4,674,059
Community services	763	-	-	198	961
School administration	-	-	-	250	250
Food services	-	-	-	796,581	796,581
Athletics	-	-	-	241,845	241,845
Debt service:					
Principal	27,362	-	-	1,150,000	1,177,362
Interest	86,357	-	-	728,693	815,050
Bond issuance costs	-	86,966	-	-	86,966
Taxes abated	51,774	-	-	2,892	54,666
Capital outlay	-	-	992,475	-	992,475
	<u>12,226,000</u>	<u>86,966</u>	<u>1,008,745</u>	<u>2,980,236</u>	<u>16,301,947</u>
Revenue over (under) expenditures	<u>207,709</u>	<u>(57,240)</u>	<u>(977,801)</u>	<u>(235,198)</u>	<u>(1,062,530)</u>
Other financing sources (uses)					
Issuance of long-term debt	-	6,080,000	-	-	6,080,000
Premium on issuance of bonds	-	87,296	-	-	87,296
Payment to refunded bond escrow agent	-	(6,175,308)	-	-	(6,175,308)
Transfers in	-	339,384	-	318,457	657,841
Transfers out	(318,457)	-	-	(339,384)	(657,841)
Proceeds from the sale of capital assets	14,072	-	-	50,000	64,072
	<u>(304,385)</u>	<u>331,372</u>	<u>-</u>	<u>29,073</u>	<u>56,060</u>
Net changes in fund balances	(96,676)	274,132	(977,801)	(206,125)	(1,006,470)
Fund balances, beginning of year	777,080	-	1,256,646	708,303	2,742,029
Fund balances, end of year	<u><u>\$ 680,404</u></u>	<u><u>\$ 274,132</u></u>	<u><u>\$ 278,845</u></u>	<u><u>\$ 502,178</u></u>	<u><u>\$ 1,735,559</u></u>

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ (1,006,470)

Amounts reported for *governmental activities* in the statement of activities are different because:

Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criterion for revenue recognition is met.

Deduct - change in deferred Durant receivable	(15,867)
Add - change in deferred building sale receivable	50,000

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	952,912
Deduct - transfers from construction in progress	(261,258)
Deduct - depreciation expense	(726,461)
Deduct - proceeds from the sale of capital assets	(114,072)
Deduct - loss on sale of capital assets	(53,538)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Deduct - issuance of long-term debt	(6,080,000)
Deduct - premium on issuance of long-term debt	(87,296)
Add - bond issuance costs	86,966
Add - principal payments on long-term debt	1,177,362
Add - payment to bond refunding escrow	6,175,308
Deduct - amortization of bond issuance costs	(7,069)
Add - amortization of bond premium	11,846
Deduct - amortization of deferred loss on bond refunding	(7,354)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	6,221
Deduct - increase in the accrual for retirement incentives	(73,150)
Deduct - increase in the accrual for compensated absences	(7,803)

Change in net assets of governmental activities	\$ 20,277
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The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS
Statement of Revenue, Expenditures
and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2008

	Budget			Variance -
	Original	Amended	Actual	Over (Under)
Revenue				Budget
Local sources	\$ 1,966,741	\$ 2,052,360	\$ 2,035,214	\$ (17,146)
State sources	10,068,652	10,152,438	10,053,080	(99,358)
Federal sources	332,319	398,234	345,415	(52,819)
Total revenue	12,367,712	12,603,032	12,433,709	(169,323)
Expenditures				
Current:				
Instruction	7,451,819	7,615,923	7,403,086	(212,837)
Supporting services	4,604,508	4,775,152	4,656,658	(118,494)
Community services	3,350	4,520	763	(3,757)
Debt service:				
Principal	37,000	28,545	27,362	(1,183)
Interest	92,775	87,000	86,357	(643)
Taxes abated	15,000	51,775	51,774	(1)
Total expenditures	12,204,452	12,562,915	12,226,000	(336,915)
Revenue over expenditures	163,260	40,117	207,709	167,592
Other financing sources (uses)				
Transfers out	(158,457)	(318,457)	(318,457)	-
Proceeds from the sale of capital assets	5,000	14,100	14,072	(28)
Total other financing sources (uses)	(153,457)	(304,357)	(304,385)	(28)
Net changes in fund balance	9,803	(264,240)	(96,676)	167,564
Fund balance, beginning of year	777,080	777,080	777,080	-
Fund balance, end of year	\$ 786,883	\$ 512,840	\$ 680,404	\$ 167,564

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS

Statement of Net Assets

Internal Service Fund

June 30, 2008

	Compensated Absences Fund
	<hr/>
Assets	
Cash and cash equivalents	<u><u>\$ 40,713</u></u>
Liabilities	
Compensated absences	<u><u>\$ 40,713</u></u>

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS

Statement of Revenue, Expenses and Changes in Fund Net Assets Internal Service Fund For the Year Ended June 30, 2008

	Compensated Absences Fund
	<hr/>
Operating revenue	
Charges for services	\$ -
Operating expenses	
Personnel services	<hr/> 713
Operating loss	(713)
Nonoperating revenue	
Interest income	<hr/> 713
Change in net assets	-
Net assets, beginning of year	<hr/> -
Net assets, end of year	<hr/> <hr/> \$ -

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS

Statement of Cash Flows Internal Service Fund For the Year Ended June 30, 2008

	Compensated Absences Fund
Cash flows from operating activities	
Receipts from interfund services provided	\$ 40,000
Cash flows from investing activities	
Interest received	<u>713</u>
Increase in cash and cash equivalents	40,713
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 40,713</u></u>
Cash flows from operating activities	
Operating loss	\$ (713)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
(Increase) decrease in:	
Due from other funds	40,000
Compensated absences	<u>713</u>
Net cash provided by operating activities	<u><u>\$ 40,000</u></u>

The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008

Assets

Cash and cash equivalents	<u><u>\$ 312,575</u></u>
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Liabilities

Due to student groups	\$ 104,541
Withholdings payable	<u>208,034</u>

Total liabilities	<u><u>\$ 312,575</u></u>
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The accompanying notes are an integral part of these financial statements.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lakeview Community Schools (the “District”) consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Lakeview Community Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized in identifying the District’s reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental, proprietary and fiduciary funds even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Property taxes, expenditure-driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2008 refunding debt service fund* accounts for the refunding of the 1998 general obligation bonds and the related payments of principal and interest on the refunding bonds.

The *capital projects fund* accounts for the accumulation and disbursement of funds for construction projects.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for the accumulation of resources which are restricted for the payment of principal and interest on bonds.

The *internal service fund* accounts for earned, but unused, sick and vacation benefits that the District may be liable for upon employee retirement.

The *agency funds* account for resources held on the behalf of other individuals and governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the internal service fund is charges to other funds for employee benefits. Operating expenses for the internal service fund are comprised of accrued compensated absences. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The effect of interfund activity has been eliminated from the government-wide financial statements.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2008. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the School Board.

Encumbrances

The District does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2007 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Investments

The District's investments consist of mutual funds and U.S. Treasury securities with regional financial institutions. Investments are stated at fair value.

State statutes authorize the District to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Receivables

The District follows the practice of recording as receivables revenues that have been earned but not yet received.

Inventories

Inventories consist of office and other supplies. Inventories are stated at cost (first-in, first-out).

Prepaid Items

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-45
Machinery and equipment	5-20
Vehicles	8

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Insurance Refunds

The District receives surplus distributions from SET/SEG Property/Casualty Pool for insurance premiums paid into the Pool in prior years. The receipt of premium refunds for prior years are recorded as revenue from Local Sources. If the District were to receive premium refunds for their current fiscal year, these refunds would offset the premium expense in the year received.

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

Vested Termination Benefits

Most employees of the District are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Durant Related Issues

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments. Lakeview Community Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 81% of the District's general fund revenue during the 2008 fiscal year.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and investments are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 1,716,959	\$ 312,575	\$ 2,029,534
Investments	1,516,758	-	1,516,758
Total deposits and investments	\$ 3,233,717	\$ 312,575	\$ 3,546,292

Cash and cash equivalents are comprised of deposits in three (3) financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>
Cash management/mutual funds:		
MILAF Plus – Cash Management Series	\$ 441,685	S&P AAAM
MILAF Plus – Max Series	1,075,073	S&P AAAM
	<u>\$ 1,156,758</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the District's deposits or investments had fixed maturities at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year end, \$1,917,515 of the District's bank balance of \$2,148,165 was exposed to custodial credit risk because it was uninsured and uncollateralized.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above mutual fund investments the District's custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

4. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Beginning of Year</u>	<u>Restatements</u>	<u>Additions</u>	<u>Dispositions</u>	<u>End of Year</u>
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 393,160	\$ -	\$ -	\$ -	\$ 393,160
Construction in progress	283,645	(22,387)	-	(261,258)	-
Total capital assets not being depreciated	676,805	(22,387)	-	(261,258)	393,160
Capital assets being depreciated:					
Buildings and improvements	26,711,683	-	860,788	(209,512)	27,362,959
Machinery and equipment	1,597,525	(99,292)	92,124	-	1,590,357
Vehicles	1,448,578	-	-	-	1,448,578
Total capital assets being depreciated	29,757,786	(99,292)	952,912	(209,512)	30,401,894
Accumulated depreciation:					
Buildings and improvements	(9,960,833)	513,805	(442,078)	41,902	(9,847,204)
Machinery and equipment	(1,446,975)	46,888	(167,883)	-	(1,567,970)
Vehicles	(1,043,325)	-	(116,500)	-	(1,159,825)
Total accumulated depreciation	(12,451,133)	560,693	(726,461)	41,902	(12,574,999)
Total capital assets being depreciated, net	17,306,653	461,401	226,451	(167,610)	17,826,895
Total capital assets, net	<u>\$ 17,983,458</u>	<u>\$ 439,014</u>	<u>\$ 226,451</u>	<u>\$ (428,868)</u>	<u>\$ 18,220,055</u>

Depreciation expense is reported as unallocated in the statement of activities.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

Transfers primarily reflect subsidies allocated from the General Fund.

	<u>In</u>	<u>Out</u>
Interfund Transfers		
General Fund	\$ -	\$ 318,457
2008 Refunding Debt Service Fund	339,384	-
Nonmajor Funds	318,457	339,384
Total	<u>\$ 657,841</u>	<u>\$ 657,841</u>

6. SHORT-TERM DEBT

The following is a summary of short-term debt transactions of the District for the year ended June 30, 2008:

	<u>Short-term Debt</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>
School bond/notes (maturing 8/20/2008)				
with an interest rate of 3.98%				
(operating cash flow)	\$ 2,070,000	\$ 2,000,000	\$ (2,070,000)	\$ 2,000,000

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

7. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
1998 Refunding Bonds due in amounts ranging from \$0 through \$525,000 plus interest at 3.70 - 4.65% through 2022 (unlimited tax, general obligation)	\$ 6,290,000	\$ -	\$(6,290,000)	\$ -	\$ -
2001 Refunding Bonds due in amounts ranging from \$235,000 through \$385,000 plus interest at 4.12 - 4.25% through 2013	1,930,000	-	(265,000)	1,665,000	285,000
2001 School Building and Site Bonds due in amounts ranging from \$70,000 through \$300,000 plus interest at 4.00 - 4.75% through 2022	4,145,000	-	(260,000)	3,885,000	260,000
1999 Refunding Bonds due in amounts ranging from \$20,000 through \$415,000 plus interest at 3.10 - 4.88% through 2022 (unlimited tax, general obligation)	4,990,000	-	(200,000)	4,790,000	200,000
2006 School Building and Site Bonds due in amounts ranging from \$150,000 through \$405,000 plus interest at 4.375% through 2013 (unlimited tax, general obligation)	1,870,000	-	(200,000)	1,670,000	215,000
1998 School Improvement Bonds (Durant Settlement) due in amounts ranging from \$6,996 through \$16,264 plus interest at 4.76% through 2013	93,693	-	-	93,693	-
2006 Computer Installment Purchase agreement secured by the equipment under lease, payable in monthly installments of \$3,067 including interest at 7.028% through 2009	54,998	-	(27,362)	27,636	27,636
2008 Refunding Bonds due in amounts ranging from \$265,000 through \$555,000 plus interest at 4.05 - 4.65% through 2022 (unlimited tax, general obligation)	-	6,080,000	-	6,080,000	265,000
Subtotal installment debt	19,373,691	6,080,000	(7,242,362)	18,211,329	1,252,636

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Unamortized bond premium	\$ 30,127	\$ 87,296	\$ (11,846)	\$ 105,577	\$ -
Deferred loss on refunding	-	(110,308)	7,354	(102,954)	-
Net installment debt	19,403,818	6,056,088	(7,246,854)	18,213,952	1,252,636
Early retirement incentive	104,694	160,508	(87,358)	177,844	97,588
Compensated absences	163,208	24,617	(16,101)	171,724	16,585
Total long-term debt	\$19,671,720	\$ 6,242,113	\$(7,350,313)	\$ 18,563,520	\$ 1,366,809

Following is a summary of future bond and loan principal maturities and interest requirements:

	Principal	Interest
2009	\$ 1,252,636	\$ 802,385
2010	1,403,212	725,011
2011	1,469,691	651,612
2012	1,530,152	591,175
2013	1,595,638	528,084
2014 – 2018	6,140,000	1,821,378
2019 – 2023	4,820,000	536,080
Total	\$18,211,329	\$5,655,725

The early retirement incentives are expected to be liquidated by the general and food service funds. During 2006, the District began advance funding its liability for compensated absences through interfund charges from an internal service fund. Once funded, the District expects to liquidate its compensated absences through this fund.

During fiscal year 2008, the District advance refunded \$6,065,000 of 1998 general obligation bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments on \$6,065,000 of refunded debt. As a result, the certificates are considered defeased and the liability has been removed from the statement of net assets. The refunding resulted in a savings of \$529,770 and an economic gain of \$417,986.

8. PUBLIC ENTITY RISK (INSURANCE) POOL – SELF-INSURANCE PLAN

The District participates in a public entity risk (insurance) pool with other school districts in the SET-SEG Property/Casualty Pool, Inc. (a nonprofit corporation). This is a self-insurance fund which provides members with loss protection for property and casualty damages. The Pool was created on May 23, 1985 and organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. There have been no significant reductions in coverage and settlements have not exceeded insurance coverage during the past 3 years.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

The District made a contribution of \$49,656 to the Pool for the 2008 fiscal year. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the Board of Directors. The District received no premium refunds for the fiscal year ended June 30, 2008.

The Pool does not maintain separate funds for members and consequently the District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the District carried commercial insurance and participated in a public entity risk pool. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

9. RETIREMENT PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 17.74% and was 16.72% from October through June of covered payroll. Effective May 2007, MPERS issued a credit to the District which decreased the effective contribution rate to 16.72%. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2008, 2007, and 2006 were \$1,248,677, \$1,293,251, and \$1,112,640, respectively, equal to the required contributions for each year.

LAKEVIEW COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Other Post-Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

10. CONTINGENCIES

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

11. SUBSEQUENT EVENT

Subsequent to June 30, 2008, the District received proceeds of \$2,100,000 in State of Michigan School Aid anticipation notes due in August 2009.

12. RESTATEMENT

Beginning net assets were increased by \$439,014 to adjust capital assets in connection with a physical inventory.

* * * * *

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

GENERAL FUND

LAKEVIEW COMMUNITY SCHOOLS
General Fund
Detail Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2008

	Budget		Actual	Variance -
	Original	Amended		Over (Under)
				Budget
Revenue				
Local sources:				
Property taxes	\$ 1,757,991	\$ 1,722,453	\$ 1,705,898	\$ (16,555)
Earnings on investments	55,000	77,000	76,027	(973)
Payments received from other governmental units:				
Special Education Medicaid - MAISD	40,000	47,500	67,413	19,913
Others - MAISD	-	52,555	52,555	-
Transportation	15,000	15,000	12,916	(2,084)
Special education tuition	28,000	24,000	23,925	(75)
USF funding	20,000	20,000	15,116	(4,884)
Miscellaneous	50,750	93,852	81,364	(12,488)
Total local sources	1,966,741	2,052,360	2,035,214	(17,146)
State sources:				
State Aid - unrestricted	9,267,128	9,310,419	9,297,795	(12,624)
At risk	335,332	356,169	269,435	(86,734)
Special education	450,325	454,754	454,754	-
Durant	15,867	15,867	15,867	-
Eisenhower math	-	15,229	15,229	-
Total state sources	10,068,652	10,152,438	10,053,080	(99,358)
Federal sources:				
Federal aid received through the state -				
Title I - regular	214,732	254,782	205,791	(48,991)
Title I - carryforward	-	16,942	16,942	-
Eisenhower grant	112,000	112,340	112,340	-
Other	-	8,583	6,329	(2,254)
Federal aid received through intermediate - school districts	5,587	5,587	4,013	(1,574)
Total federal sources	332,319	398,234	345,415	(52,819)
Total revenue	12,367,712	12,603,032	12,433,709	(169,323)

(Continued)

LAKEVIEW COMMUNITY SCHOOLS
General Fund
Detail Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2008

	Budget			Variance -
	Original	Amended	Actual	Over (Under)
Expenditures				Budget
Instructional:				
Basic programs:				
Elementary	\$ 2,356,488	\$ 2,375,503	\$ 2,354,555	\$ (20,948)
Middle School	1,354,669	1,416,745	1,396,918	(19,827)
High School	1,759,885	1,867,126	1,836,872	(30,254)
Total basic programs	5,471,042	5,659,374	5,588,345	(71,029)
Added needs:				
Special Education	1,384,801	1,297,984	1,274,883	(23,101)
Compensatory Education	595,976	603,632	511,412	(92,220)
Other basic needs	-	54,933	28,446	(26,487)
Total added needs	1,980,777	1,956,549	1,814,741	(141,808)
Total instructional	7,451,819	7,615,923	7,403,086	(212,837)
Supporting services:				
Pupil services:				
Guidance services	338,117	297,730	283,344	(14,386)
Health services	40,918	51,214	43,971	(7,243)
Speech services	144,790	148,935	148,169	(766)
Social work services	171,148	174,350	173,117	(1,233)
Monitors	-	12,025	11,079	(946)
Total pupil services	694,973	684,254	659,680	(24,574)
Instructional staff:				
Improvement of instruction	110,219	106,971	96,948	(10,023)
Library	199,138	206,593	192,407	(14,186)
Total instructional staff	309,357	313,564	289,355	(24,209)
General administration:				
Board of Education	115,100	110,500	110,490	(10)
Executive administration	247,083	255,900	254,008	(1,892)
Fiscal services	102,206	107,129	106,406	(723)
Total general administration	464,389	473,529	470,904	(2,625)
School administration:				
Elementary and Secondary Administration	881,922	888,043	874,954	(13,089)
Operation and maintenance	1,205,388	1,227,031	1,196,681	(30,350)

(Continued)

LAKEVIEW COMMUNITY SCHOOLS
General Fund
Detail Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual - Concluded
For the Year Ended June 30, 2008

	Budget			Variance -
	Original	Amended	Actual	Over (Under)
				Budget
Expenditures (concluded)				
Supporting services (concluded)				
Pupil transportation	\$ 706,482	\$ 792,740	\$ 782,766	\$ (9,974)
Support staff training	24,246	31,247	30,909	(338)
Information services	168,301	207,220	198,454	(8,766)
Other services	149,450	157,524	152,955	(4,569)
Total supporting services	4,604,508	4,775,152	4,656,658	(118,494)
Community services:				
Community activities	3,350	4,520	763	(3,757)
Debt service:				
Principal	37,000	28,545	27,362	(1,183)
Interest	92,775	87,000	86,357	(643)
Total debt service	129,775	115,545	113,719	(1,826)
Taxes abated	15,000	51,775	51,774	(1)
Total expenditures	12,204,452	12,562,915	12,226,000	(336,915)
Revenue over (under) expenditures	163,260	40,117	207,709	167,592
Other financing sources (uses)				
Transfers out	(158,457)	(318,457)	(318,457)	-
Proceeds from the sale of capital assets	5,000	14,100	14,072	(28)
Total other financing sources (uses)	(153,457)	(304,357)	(304,385)	(28)
Net changes in fund balance	9,803	(264,240)	(96,676)	167,564
Fund balance, beginning of year	777,080	777,080	777,080	-
Fund balance, end of year	\$ 786,883	\$ 512,840	\$ 680,404	\$ 167,564

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS

LAKEVIEW COMMUNITY SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue		
	Athletics	Food Service	Preschool
Assets			
Cash and cash equivalents	\$ 42,957	\$ 12,659	\$ 28,752
Due from other governments	-	5,420	-
Inventory	-	9,507	-
Total assets	\$ 42,957	\$ 27,586	\$ 28,752
Liabilities			
Accounts payable	\$ 286	\$ 16,358	\$ 612
Accrued expenditures	-	-	5,897
Deferred revenue	-	-	12,269
Total liabilities	286	16,358	18,778
Fund balances			
Reserved for:			
Inventory	-	9,507	-
Unreserved, undesignated	42,671	1,721	9,974
Total fund balances	42,671	11,228	9,974
Total liabilities and fund balances	\$ 42,957	\$ 27,586	\$ 28,752

Debt Service						
1998 Debt	1999 Debt	Durant Debt	2001 Refinancing	2001 Voting	2006 Voting	Total
\$ -	\$ 146,098	\$ -	\$ 78,263	\$ 115,741	\$ 98,203	\$ 522,673
-	-	93,693	-	-	-	99,113
-	-	-	-	-	-	9,507
<u>\$ -</u>	<u>\$ 146,098</u>	<u>\$ 93,693</u>	<u>\$ 78,263</u>	<u>\$ 115,741</u>	<u>\$ 98,203</u>	<u>\$ 631,293</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,256
-	-	-	-	-	-	5,897
-	-	93,693	-	-	-	105,962
-	-	93,693	-	-	-	129,115
-	-	-	-	-	-	9,507
-	146,098	-	78,263	115,741	98,203	492,671
-	146,098	-	78,263	115,741	98,203	502,178
<u>\$ -</u>	<u>\$ 146,098</u>	<u>\$ 93,693</u>	<u>\$ 78,263</u>	<u>\$ 115,741</u>	<u>\$ 98,203</u>	<u>\$ 631,293</u>

LAKEVIEW COMMUNITY SCHOOLS
Combining Statement of Revenue, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue		
	Athletics	Food Service	Preschool
Revenue			
Local sources	\$ 102,498	\$ 232,561	\$ 7,632
State sources	-	48,008	45,531
Federal sources	-	339,798	-
Total revenue	102,498	620,367	53,163
Expenditures			
Current:			
Instruction	-	-	58,646
Supporting services	-	-	1,131
Community services	-	-	198
School administration	-	-	250
Food service	-	796,581	-
Athletic activities	241,845	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Bond issuance costs	-	-	-
Taxes abated	-	-	-
Total expenditures	241,845	796,581	60,225
Revenue over (under) expenditures	(139,347)	(176,214)	(7,062)
Other financing sources (uses)			
Transfers in	158,457	160,000	-
Transfers out	-	-	-
Proceeds from the sale of capital assets	-	-	-
Total other financing sources (uses)	158,457	160,000	-
Net changes in fund balances	19,110	(16,214)	(7,062)
Fund balances, beginning of year	23,561	27,442	17,036
Fund balances, end of year	\$ 42,671	\$ 11,228	\$ 9,974

Debt Service						
1998 Debt	1999 Debt	Durant Debt	2001 Refinancing	2001 Voting	2006 Voting	Total
\$ 451,574	\$ 419,924	\$ -	\$ 358,700	\$ 439,134	\$ 299,678	\$ 2,311,701
-	-	-	-	-	-	93,539
-	-	-	-	-	-	339,798
451,574	419,924	-	358,700	439,134	299,678	2,745,038
-	-	-	-	-	-	58,646
-	-	-	-	-	-	1,131
-	-	-	-	-	-	198
-	-	-	-	-	-	250
-	-	-	-	-	-	796,581
-	-	-	-	-	-	241,845
225,000	200,000	-	265,000	260,000	200,000	1,150,000
143,972	230,950	-	82,024	189,613	82,134	728,693
396	386	-	525	680	905	2,892
369,368	431,336	-	347,549	450,293	283,039	2,980,236
82,206	(11,412)	-	11,151	(11,159)	16,639	(235,198)
-	-	-	-	-	-	318,457
(339,384)	-	-	-	-	-	(339,384)
50,000	-	-	-	-	-	50,000
(289,384)	-	-	-	-	-	29,073
(207,178)	(11,412)	-	11,151	(11,159)	16,639	(206,125)
207,178	157,510	-	67,112	126,900	81,564	708,303
<u>\$ -</u>	<u>\$ 146,098</u>	<u>\$ -</u>	<u>\$ 78,263</u>	<u>\$ 115,741</u>	<u>\$ 98,203</u>	<u>\$ 502,178</u>

LAKEVIEW COMMUNITY SCHOOLS
Athletics Fund
Schedule of Revenue, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2008

	Budget			Variance - Over (Under)
	Original	Amended	Actual	Budget
Revenue				
Local sources:				
Gate receipts	\$ 68,925	\$ 78,853	\$ 76,912	\$ (1,941)
Other	7,412	26,939	25,586	(1,353)
Total revenue	76,337	105,792	102,498	(3,294)
Expenditures				
Athletic activities	238,268	253,024	241,845	(11,179)
Revenue over (under) expenditures	(161,931)	(147,232)	(139,347)	7,885
Other financing sources				
Transfers in	158,457	158,457	158,457	-
Net changes in fund balance	(3,474)	11,225	19,110	7,885
Fund balance, beginning of year	23,561	23,561	23,561	-
Fund balance, end of year	\$ 20,087	\$ 34,786	\$ 42,671	\$ 7,885

LAKEVIEW COMMUNITY SCHOOLS
Food Service Fund
Schedule of Revenue, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2008

	Budget			Variance -
	Original	Amended	Actual	Over (Under)
				Budget
Revenue				
Local sources:				
Lunch sales	\$ 231,500	\$ 222,981	\$ 219,876	\$ (3,105)
Other	7,400	12,739	12,685	(54)
Total local sources	238,900	235,720	232,561	(3,159)
State sources:				
State aid	49,834	48,008	48,008	-
Federal sources:				
Federal aid received through the State	318,600	298,842	309,103	10,261
U.S.D.A. donated commodities	-	28,755	30,695	1,940
Total federal sources	318,600	327,597	339,798	12,201
Total revenue	607,334	611,325	620,367	9,042
Expenditures				
Food services	588,800	796,613	796,581	(32)
Revenue over (under) expenditures	18,534	(185,288)	(176,214)	9,074
Other financing sources				
Transfers in	-	160,000	160,000	-
Net changes in fund balance	18,534	(25,288)	(16,214)	9,074
Fund balance, beginning of year	27,442	27,442	27,442	-
Fund balance, end of year	\$ 45,976	\$ 2,154	\$ 11,228	\$ 9,074

LAKEVIEW COMMUNITY SCHOOLS
Preschool Fund
Schedule of Revenue, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2008

	Budget			Variance -
	Original	Amended	Actual	Over (Under)
				Budget
Revenue				
Local sources:				
Other	\$ 1,000	\$ 7,700	\$ 7,632	\$ (68)
State sources:				
State aid	52,800	71,400	45,531	(25,869)
Total revenue	53,800	79,100	53,163	(25,937)
Expenditures				
Instruction:				
Early education	59,475	65,599	58,646	(6,953)
Supporting services:				
Improvement of instruction	295	1,435	1,131	(304)
Community services:				
Child care	-	202	198	(4)
School administration:				
Transportation	1,271	1,271	250	(1,021)
Total expenditures	61,041	68,507	60,225	(8,282)
Net changes in fund balance	(7,241)	10,593	(7,062)	(17,655)
Fund balance, beginning of year	17,036	17,036	17,036	-
Fund balance, end of year	\$ 9,795	\$ 27,629	\$ 9,974	\$ (17,655)

AGENCY FUNDS

LAKEVIEW COMMUNITY SCHOOLS
Combining Balance Sheet
Agency Funds
June 30, 2008

	<u>Student Activities</u>	<u>Payroll Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	<u>\$ 104,541</u>	<u>\$ 208,034</u>	<u>\$ 312,575</u>
Liabilities			
Due to student groups	\$ 104,541	\$ -	\$ 104,541
Withholdings payable	<u>-</u>	<u>208,034</u>	<u>208,034</u>
Total liabilities	<u>\$ 104,541</u>	<u>\$ 208,034</u>	<u>\$ 312,575</u>

LAKEVIEW COMMUNITY SCHOOLS

LAKEVIEW, MICHIGAN

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

LAKEVIEW COMMUNITY SCHOOLS
SINGLE AUDIT

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REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

October 29, 2008

Board of Education
Lakeview Community Schools
Lakeview, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Lakeview Community Schools**, Lakeview, Michigan, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakeview Community Schools, Lakeview, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lakeview Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lakeview Community Schools' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding 2008-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our considering of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described in the accompanying schedule of findings and questioned costs as finding 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lakeview Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lakeview Community Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lakeview Community Schools' response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Lakeview Community Schools in a separate letter dated October 29, 2008.

This report is intended solely for the information and use of management and the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 29, 2008

Board of Education
Lakeview Community Schools
Lakeview, Michigan

Compliance

We have audited the compliance of *Lakeview Community Schools*, Lakeview, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Lakeview Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lakeview Community Schools' management. Our responsibility is to express an opinion on Lakeview Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lakeview Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lakeview Community Schools' compliance with those requirements.

In our opinion, Lakeview Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Lakeview Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lakeview Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lakeview Community Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated October 29, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lakeview Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LAKEVIEW COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2007	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2008
						(Memo Only) Prior Year(s)	Year Ended June 30, 2008	
U.S. Department of Agriculture								
Direct programs								
Entitlement commodities	10.550	n/a	\$ 30,695	\$ -	\$ 30,695	\$ -	\$ 30,695	\$ -
Passed through Michigan Department of Education								
Child Nutrition Cluster:								
National School Lunch - breakfast	10.553	071970	20,219	1,702	8,795	-	7,093	-
National School Lunch - breakfast	10.553	081970	65,308	-	65,308	-	65,308	-
				1,702	74,103	-	72,401	-
National School Lunch Section 4 All Lunches	10.555	071950	9,943	781	4,760	-	3,979	-
National School Lunch Section 4 All Lunches	10.555	081950	32,625	-	32,625	-	32,625	-
National School Lunch Section 11 Free & Reduced	10.555	071950	53,350	4,265	25,361	-	21,096	-
National School Lunch Section 11 Free & Reduced	10.555	081950	174,660	-	174,660	-	174,660	-
				5,046	237,406	-	232,360	-
Summer Food Meals	10.559	070900	3,917	-	3,917	-	3,917	-
Summer Food Sponsor Administration	10.559	081900	425	-	425	-	425	-
				-	4,342	-	4,342	-
Total Child Nutrition Cluster				6,748	315,851	-	309,103	-
Total U.S. Department of Agriculture				6,748	346,546	-	339,798	-
U.S. Department of Education								
Title I, Part A	84.010	071530-0607	289,579	107,468	124,410	272,637	16,942	-
Title I, Part A	84.010	081530-0708	254,782	-	205,791	-	205,791	-
				107,468	330,201	272,637	222,733	-
Service Provider Self-review	84.027	080440-0708	4,500	-	3,934	-	3,934	-
Title II Part D - Technology Literacy Challenge Grant	84.318	074290-0607	2,395	-	2,395	-	2,395	-
Title II Part A - Improving Teacher Quality	84.367	070520-0607	116,749	41,892	52,812	105,829	10,920	-
Title II Part A - Improving Teacher Quality	84.367	080520-0708	101,420	-	101,420	-	101,420	-
				41,892	154,232	105,829	112,340	-
Passed through Kent Intermediate School District								
Safe and Drug Free Schools	84.186	n/a	5,688	-	4,013	-	4,013	-
Total U.S. Department of Education				149,360	494,775	378,466	345,415	-
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 156,108	\$ 841,321	\$ 378,466	\$ 685,213	\$ -

LAKEVIEW COMMUNITY SCHOOLS

SINGLE AUDIT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2008 basic financial statements agree with federal expenditures from the June 30, 2008 Schedule of Expenditures of Federal Awards.

Expenditures are in agreement with amounts reported in the basic financial statements. Management has utilized the Grants Section Auditors Report (form R7120) and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

LAKEVIEW COMMUNITY SCHOOLS, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal controls over financial reporting:

Material weakness(es) identified?

 x yes no

Significant deficiency(ies) identified not
considered to be material weaknesses?

 yes x none reported

Noncompliance material to financial
statements noted?

 yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified not
considered to be material weaknesses?

 yes x none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

 yes x no

Identification of Major Programs

CFDA Number(s)

Name of Federal Program or Cluster

10.550
10.553, 10.555, 10.559
84.186

Entitlement Commodities
Child Nutrition Cluster
Safe and Drug-free Schools
and Communities

Dollar threshold used to distinguish
between Type A and Type B programs:

 \$ 300,000

Auditee qualified as low-risk auditee?

 yes x no

LAKEVIEW COMMUNITY SCHOOLS, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2008-1: Material Audit Adjustments

Criteria:	The District's management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified the need for two material adjustments related to accounts payable and accrued liabilities. Management reviewed and approved our proposed entries, and the accompanying financial statements include the effect of these corrections.
Cause:	This condition was caused by an oversight by management in recording year-end accruals.
Effect:	As a result of this condition, the District's internal accounting records were initially misstated, and required adjustments that were material to the financial statements taken as a whole.
Recommendation:	We recommend that the District carefully review all expenditures made subsequent to year-end and properly identify the fiscal year to which they belong.
View of Responsible Officials:	Management agrees with the adjustments proposed by the auditors and they have been posted to the District's records.

SECTION III – FEDERAL AWARDS FINDINGS

None

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

Finding 2007-1	The District required a material audit adjustment in order to properly present the financial statements in accordance with GAAP. Management reviewed and approved the adjustment, and no further corrective action was required. A similar condition was reported as Finding 2008-1 for different material adjustments identified during the current audit.
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Lakeview Community Schools

**123 Fifth Street
Lakeview, Michigan 48850**

**Phone: 989-352-6226
Fax: 989-352-8245**

*Dixie M Pope, Ed.D, Interim Superintendent
Sara L. Shriver, Director of Instruction
Pamela Main, Human Resource Supervisor
Patricia Root, Accounting Supervisor
www.lakeviewschools.net*

CORRECTIVE ACTION PLAN for fiscal year ending June 30, 2008

October 29, 2008

Gloria Suggitt, Auditor
Michigan Department of Education
Office of Audits
608 West Allegan Street
P O Box 30008
Lansing, MI 48909

RE: LAKEVIEW COMMUNITY SCHOOLS 38-6025862

Dear Ms. Suggitt:

In response to the audit findings during the 2007-2008 audit for the Single Audit, listed below you will find Lakeview Community School's response. Lakeview Community School's Corrective Action Plan (CAP) to Finding 2008-1 noted in the Single Audit Report for fiscal year ending June 30, 2008 is as follows:

Finding: During our audit, we identified the need for two material adjustments related to accounts payable and accrued liabilities. Management reviewed and approved our proposed entries, and the accompanying financial statements include the effect of these corrections.

CAP: This was a year of transition of current employees learning new duties. Our main auditor contact also changed, and the new lead auditor had a different perspective on posting certain entries. Now that we are aware of how the audit team wants the District to report short and long-term liabilities, we will do so.

Monitor: Accounting Supervisor

Other Matters:

Segregation of Duties over Cash Deposits- We already have a plan to eliminate this finding for next year. One other person will be counting the cash, doing the deposit ticket, and taking the deposit to the bank. The person who was doing all of this before will verify the deposit, enter it into our financial system, and reconcile the bank statement monthly.

We are in the process of shifting jobs within central office, and this is just an overlap of responsibilities for the 07-08 school year.

Athletic Cash Receipts- We currently use a ticket system to verify the number of paid tickets. We would like our auditor to meet with our athletic director to discuss the register and its importance to the audit. We do have a new athletic director for the 08-09 school year.

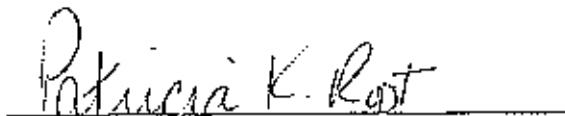
Internal controls over Information Technology was lacking as a result of hiring an outside company for our IT needs. In prior years, IT Controls were in place.

As with any learning curve, the employees doing these new duties will make sure we again are in compliance starting the 08-09 school year.

Monitor- Accounting Supervisor- Segregation of Duties
Athletic Director- Register for athletic gates
Technology Provider-MOSS- IT controls

If you are in need of further information, please feel free to contact me at 989-352-6226 or 989-352-7221 ext. 2442.

Sincerely,



Patricia K. Root
Accounting Supervisor

cc: Stephen W. Blann, CPA, CGFM, Rehmann Robson Auditor
Board of Education
Dixie M. Pope, Superintendent
Federal Clearing House



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

October 29, 2008

To the Board of Education
Lakeview Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Lakeview Community Schools** (the "District") for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the ***U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*** applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.



Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated July 18, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. The following significant unusual accounting transactions occurred during the year:

- During 2008, the District's 1998 general obligation bonds were in-substance defeased through the issuance of advance refunding bonds. In accordance with GASB Codification section D20, *Debt Refundings*, the difference between the amount placed in escrow to repay the refunded bonds and the carrying amount of the refunded bonds is being deferred and amortized as a component of interest expense over the remaining life of the refunded bonds.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, we proposed a material audit adjustment to record accounts payable in the capital projects fund, and a significant audit adjustment to reverse an entry accruing early retirement incentive payments in the fund statements. These transactions were reviewed and approved by management and have been posted to the District's records.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of Lakeview Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Lakeview Community Schools

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Lakeview Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

Other Matters

Segregation of Duties over Cash Deposits

We noted that the same individual prepares deposit slips, makes the bank deposit, and has the primary responsibility for maintenance of the accounts receivable subsidiary ledger. We recommend that the District evaluate the current processes and determine whether it would be practical to segregate these incompatible duties.

Lakeview Community Schools

Comments and Recommendations

For the Year Ended June 30, 2008

Athletics Cash Receipts

During our audit, we noted that there is very little documentation of oversight with regards to the sale of athletic tickets. We recommend that the District keep a register of the number and type of tickets sold during each event which should accompany and be reconciled to the cash received.

Internal Controls over Information Technology

During our audit, we reviewed with management a list of recommended information technology controls. We noted various opportunities to enhance controls over IT as it relates to disaster recovery and formal IT policies and procedures. We recommend that the District review the suggested controls not currently in place and determine whether it would be cost beneficial to revise such controls in the future.

* * * * *